

Message Text

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21

ACTION EA-14

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OMB-01 CEA-02 EUR-25 IO-14 COME-00 FRB-03 XMB-07

OPIC-12 LAB-06 SIL-01 FEA-02 INT-08 SCI-06 DRC-01

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R 160820Z SEP 74

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 7958

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY MANILA

USLO PEKING

AMEMBASSY RANGOON

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

CINCPAC

C O N F I D E N T I A L KUALA LUMPUR 4493

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: PFOR ECON MY

SUBJ: MALAYSIA - TRENDS, PROBLEMS AND OPPORTUNITIES:

THIRD QUARTER 1974

REF: A. KL 2596

B. KL 854

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1. SUMMARY: MALAYSIA'S GOVT EMERGED FROM THE AUGUST 24 GENERAL ELECTION, THE FIRST IN FIVE YEARS, WITH ENHANCED MAJORITIES BOTH IN THE PARLIAMENT AND IN STATE LEGISLATURES. THE CAMPAIGN AND POST-ELECTION PERIOD WERE FREE FROM THE EXTREME POLITICAL AND RACIAL TENSIONS WHICH LED TO VIOLENCE IN 1969. THE MAKE-UP OF TUN RAZAK'S NEW CABINET INDICATED A CONTINUATION OF MODERATE POLITICS FOLLOWED IN THE PAST. WE EXPECT EFFORTS TO REDUCE FRICTION POINTS WITH MALAYSIA'S NEIGHBORS. MALAYSIA'S ECONOMIC EXPANSION CONTINUES DESPITE A REDUCTION IN WORLD DEMAND FOR RUBBER AND TIMBER AS COMPARED WITH FIRST HALF OF YEAR. INFLATION REMAINS A PROBLEM BUT GOVT FISCAL AND MONETARY CONTROL MEASURES APPARENTLY ARE CAUSING A DECLINE IN THE INFLATION RATE. EXPANDING OPERATIONS BY US OIL EXPLORATION COMPANIES HAVE SHARPLY INCREASED THE US PRESENCE HERE AND DURING NEXT 12-18 MONTHS COULD, WITH RESULTANT PETROCHEMICAL DEVELOPMENT, SUBSTANTIALLY INCREASE THE LEVEL OF CURRENT US PRIVATE INVESTMENT. END SUMMARY.

2. POLITICS - DOMESTIC: TUN RAZAK'S NATIONAL FRONT LANDSLIDE ELECTION VICTORY (135 ODD OUT OF 154 SEATS) WAS A BIT TARNISHED. THERE WAS GERRYMANDERING AND THREATS THAT AN OPPOSITION VICTORY IN A DISTRICT WOULD MEAN AN END TO GOVT SUPPORT FOR LOCAL PROJECTS. IN SABAH, TUN MUSTAPHA LOCKED UP OPPOSITION CANDIDATES ON NOMINATION DAY, AND THERE WERE COMPLAINTS FROM BOTH GOVT AND OPPOSITION OF FAILURE TO REGISTER ALL QUALIFIED VOTERS. BUT WE SHOULDN'T BE TOO HARSH IN OUR JUDGMENTS. SOUTH OF TOKYO, EAST OF NEW DELHI, AND NORTH OF CANBERRA IT IS THE ONLY FUNCTIONING, HALFWAY DECENT DEMOCRATIC CRAPGAME GOING. IT WAS A FREE, PEACEFUL, AND REASONABLY HONEST ELECTION EXTENDING THE MANDATE OF A MODERATE, EFFECTIVE GOVERNMENT. ALL SECTORS OF POLITICAL OPINION, EXCEPT EXTREME CHINESE CHAUVENISTS AND FAR LEFT-WINGERS ARE INCLUDED IN THE GOVT, AND THE COMPETITION AND BARGAINING THAT TAKES PLACE BETWEEN GOVT AND OPPOSITION IN THE WEST HERE OCCURS WITHIN THE NATIONAL FRONT. THE CHINESE BASED PARTIES DID WELL ENOUGH TO GIVE THE GOVT A SATISFACTORY MULTI-RACIAL BASE, AND THE CABINET WHICH RAZAK HAS CHOSEN DEMONSTRATES HIS WILLINGNESS TO SHARE POWER WITH ALL NATIONAL FRONT ELEMENTS, INCLUDING NON-MALAY PARTIES. WITH RESPECT TO DOMESTIC ECONOMIC AND SOCIAL POLICIES, WE CAN EXPECT MORE OF THE SAME.

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3. POLITICS - FOREIGN: AN ADVOCATE OF A ZONE OF PEACE AND NEUTRALITY, MALAYSIA HAS SOME REGIONAL FENCE MENDING TO DO. THAILAND, BRUNEI, BRUNEI, AND THE PHILIPPINES HAVE CAUSE TO BE DISPLEASED, IF NOT WITH RAZAK, AT LEAST WITH THREE OF HIS PRINCIPAL SUPPORTERS. WE EXPECT SOME CONSTRUCTIVE ATTENTION TO NOW BE GIVEN TO THESE PROBLEMS. THE MOVEMENT OF TUN MUSTAPHA TO A CABINET JOB IN

KUALA LUMPUR, GHAZALI'S VISIT TO BANGKOK, AND RAZAK'S MEETING WITH SUHARTO APPEAR TO BE PART OF THIS EFFORT. IN THE BROADER INTERNATIONAL FRONT WE HAVE BEEN TOLD THERE WOULD BE NO BOLD NEW INITIATIVES. THE PRC CHARGE AND THE ADVANCE TEAM ARRIVE THIS WEEK, AND WILL BE UNDER CLOSE SCRUTINY FROM ALL SIDES.

4. ECONOMICS AND BUSINESS: MALAYSIA'S ECONOMY CONTINUED TO EXPAND IN THIRD QUARTER, ALTHOUGH DROPOFF IN WORLD DEMAND FOR RUBBER AND TIMBER CAUSED SLOWDOWN FROM FIRST HALF 1974. THE OUTLOOK FOR 1974 IS FOR A REAL GROWTH RATE OF APPROXIMATELY SIX PERCENT. DOMESTIC CONSUMPTION REMAINED STRONG THUS INCREASING IMPORTS AND NARROWING THE CONTINUING FAVORABLE BALANCE OF TRADE. MALAYSIA IS A NET PETROLEUM EXPORTER, THOUGH HIGH PRICES OF PETROLEUM PRODUCTS ARE CONTRIBUTING TO INFLATION. PETROLEUM EXPLORATION, EXPLOITATION, AND DEVELOPMENT OF DOWN-STREAM FACILITIES SUCH AS PETROCHEMICAL PLANTS HAS BEEN PLACED UNDER THE DIRECT CONTROL OF PRIME MINISTER RAZAK THROUGH A NEW NATIONAL PETROLEUM CORPORATION (PETRONAS). ESSO HAS ANNOUNCED COMMERCIAL CRUDE OIL PRODUCTION OFF SABAH (EXPECTED TO REACH 40,000 BBL'S PER DAY) WILL BEGIN END OF SEPTEMBER. INFLATION REMAINS THE GOM'S PRINCIPAL PROBLEM BUT AN ARRAY OF GOVT FISCAL, MONETARY, AND CONTROL MEASURES APPARENTLY IS CONTRIBUTING TO ITS LEVELLING OFF. HOWEVER, INFLATION HAS PRODUCED PRESSURES ON GOVT AND INDUSTRY FOR HIGHER WAGES AND THE GOM HAS ANNOUNCED A 13TH MONTH WAGE FOR GOVT WORKERS WHICH THE PRIVATE SECTOR IS EXPECTED TO FOLLOW. SLACKENING WORLD DEMAND FOR ELECTRONIC PRODUCTS CAUSED REDUCTION OF SHIFTS AND IN WORK FORCE, INCLUDING THOSE OF AMERICAN FIRMS, AND TWO AMERICAN ELECTRONICS COMPANIES HAVE ABANDONED PLANS TO ESTABLISH PLANTS HERE. ON THE TRADE SIDE, THE MALAYSIAN DEFENSE MINISTRY SIGNED A COMMERCIAL CONTRACT TOTALLING APPROXIMATELY US

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48 MILLION FOR SIX C-130 AIRCRAFT.

5. TRENDS: US INTERESTS IN MALAYSIA ARE LARGELY ECONOMIC WITH AN EMPHASIS ON INVESTMENT. THE GOM CONTINUES TO ENCOURAGE FOREIGN INVESTMENT BUT NOW STRESSES PROCESSING OF PRIMARY COMMODITIES, PARTICULARLY PETROLEUM. FOUR TO FIVE HUNDRED ADDITIONAL AMERICANS ARE EXPECTED TO ARRIVE IN MALAYSIA DURING REMAINDER 1974 AND EARLY 1975--A DRAMATIC INCREASE IN PRESENT AMERICAN POPULATION OF APPROXIMATELY 2200. KEY REASON IS EXPANDED OPERATIONS BY US OIL EXPLORATION COMPANIES, PARTICULARLY ESSO EXPLORATION. US INVESTMENT DURING NEXT 12-18 MONTHS IN OIL EXPLORATION AND, IN ALL LIKELIHOOD, PETROCHEMICAL COMPLEXES COULD ADD SUBSTANTIALLY (POSSIBLY DOUBLING OR MORE) TO CURRENT AMERICAN INVESTMENT OF APPROXIMATELY US DOLS 450 MILLION. THUS, IN A RELATIVELY SHORT SPAN OF TIME THE US PRESENCE AND INVESTMENT

IN MALAYSIA CAN BE EXPECTED TO REGISTER A QUANTUM INCREASE.

6. CONCLUSION: THERE ARE, OF COURSE, SOME REASSURING BLACK SPOTS TO RELIEVE THIS MAXFIELD PARRISH PICTURE. TUN MUSTAPHA IN K.L. COULD PUT THE CAT AMONG THE CANARIES AND AWAKEN LATENT MOSLEM FANATISICM, SHARPENING RACIAL TENSIONS. A FLARE UP IN WEST ASIA OR MINDANAO COULD GENERATE LOCAL REACTIONS AGAINST US AS THE ALLY AND SUPPORTER OF THE PHILIPPINES AND ISRAEL. WITH THESE CAUTIONARY RESERVATIONS, HOWEVER, WE EXPECT NO DRASTIC DEPARTURE FROM PRESENT PATTERNS.
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